

**SUBJECT: FIVE-YEAR PROJECTION OF GENERAL FUND REVENUES AND EXPENDITURES**

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**INTRODUCTION**

Staff has prepared two projections of General Fund revenues and expenditures summarized on the attached chart. The first scenario shows the estimated annual budget balance if no corrective actions were taken this fiscal year or if reserves were used to balance the budget rather than operating reductions. The second scenario shows the same information but incorporates Fiscal Year 2003-04 recommended expenditure reductions. This projection is not a detailed analysis or forecast but a reasonable approximation based on information available. Neither projection includes an Economic Stabilization Contingency or an estimated State impact.

**ANALYSIS**

Revenues are assumed to be relatively flat in Fiscal Years 2003-04 and 2004-05 and, in total, increase in each of the next three years 2.4 percent, 2.7 percent and 3.4 percent respectively.

In the first scenario, a negative balance of \$2.8 million exists in Fiscal Year 2003-04, growing to \$12.3 million in Fiscal Year 2007-08. The cumulative shortfall totals approximately \$42.1 million over the five years projected, far more than could be reasonably funded from reserves.

The second scenario incorporates Fiscal Year 2003-04 revenue and expenditure recommendations. Revenue assumptions are the same as Scenario 1 except for the effect of proposed revenue enhancements. Expenditures are reduced as described in the report. Next fiscal year begins with a positive revenue balance equal to the Economic Stabilization Contingency of \$2.8 million. Fiscal Year 2004-05 projects a small shortfall of approximately \$700,000 that grows over the following three years to approximately \$6.2 million for a cumulative shortfall over five years of approximately \$12.9 million.

## **CONCLUSION**

This projection is rough as revenues during the projected time period are so uncertain. Also, no State impacts are assumed. However, what is demonstrated is that it will not be possible to balance the budget over the medium-term future with reserves and that the operating budget must be reduced.

RFL/BUD

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